

<b>Agency:</b>	<b>107 Health Care Authority</b>
<b>Decision Package Code/Title:</b>	<b>ML2-LB CPE Adjustment</b>
<b>Budget Period:</b>	<b>2015 Supplemental Submittal</b>
<b>Budget Level:</b>	<b>ML2 – Maintenance Level</b>

### **Recommendation Summary Text**

The Health Care Authority (HCA) requests \$2,232,000 GF-State in the 2015 supplemental as an adjustment to the enacted fiscal year 2015 budget for the Certified Public Expenditure (CPE) Program. This adjustment is necessary to ensure that funding is sufficient to support anticipated hold harmless grants and cost settlement payments. This request will be updated with the availability of the final October 2014 Medical Assistance Forecast.

### **Package Description**

The HCA requests \$2,232,000 GF-State for the 2015 supplemental as an adjustment to the enacted fiscal year 2015 budget for the hold harmless and federal settlement payments related to the CPE program. This funding request includes the annual update to hospital cost data using state fiscal year 2013 costs in the CPE expenditure projections. This funding request will be updated again with the availability of the final October 2014 Medical Assistance Forecast.

The CPE program was initially implemented in the 2005-07 biennium as a replacement for the Inter-Governmental Transfer (IGT) program. The CPE program applies to public hospitals, including government operated hospitals that are not critical access or state psychiatric hospitals. This requests the funding required for the CPE program for fiscal year 2015, which can be broken into two components: 1) hold harmless grants and 2) the estimated federal cost settlements related to fiscal year 2014.

It is the state's policy to hold each hospital financially harmless for changes to the CPE payment methodology. A hospital will not be paid less under the CPE methodology than it would have been paid under the hospital payment methodology in place at the time services are rendered. The HCA performs an annual analysis that compares the total each hospital would have been paid for inpatient claims under current standard hospital payment methodology and Disproportionate Share Hospital (DSH) payments at 2005 levels, to what they will be paid under CPE. Hold Harmless grants are paid to hospitals whose total payments are less under CPE. Updated calculations indicate that the Hold Harmless grants will be \$2,232,000 more than that assumed in the enacted 2015 budget.

There are several unknown factors that will impact the Hold Harmless grants for state fiscal year 2015. The rebased inpatient rates include significant increases to Harborview Medical Center and University of Washington Medical Center, requiring increases in their Hold Harmless grants. Additionally, under the Affordable Care Act, the uninsured costs will be significantly lower at these hospitals but the DSH component of the Hold Harmless grants have not been adjusted to keep up with the reductions to these hospital's DSH payments. There has also been a significant increase in the inpatient psychiatric utilization at Harborview and combined with the 11 percent increase in the hospital Per Diem Psychiatric rates, the mental health portion of the Hold Harmless grants from the Department of Social and Health Services should be adjusted. The HCA does not include mental health costs in the Medical Assistance Forecast.

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Federal requirements mandate that payments made using CPE are cost-settled once actual payments are known. Payments made during a given fiscal year under the CPE methodology are based on an estimate of costs for that year. Costs are estimated using the hospitals' most recent Ratio-of-Cost-to-Charges (RCC) which is typically based on data from two years prior. For example, the RCC used for the cost estimate for fiscal year 2015 is a hospital's most recent RCC and is based on 2013 data. Hospital RCCs based on 2015 data will not be available until 2017. Due to this time lag, the Centers for Medicare and Medicaid Services (CMS) require actual costs be recalculated once the RCCs for that year are known. Therefore, in 2017 the costs for 2015 will be recalculated using actual 2015 RCCs and a federal settlement amount will be determined at that time. Since the CPE program has been in place since fiscal year 2006, information for cost settlements is available. Current estimates indicate that the federal cost settlements for fiscal year 2014 appropriated in state fiscal year 2015 will remain \$3,045,000.

Questions related to this decision package should be directed to Ken Lee at (360) 725-1275 or at [Kenneth.Lee@hca.wa.gov](mailto:Kenneth.Lee@hca.wa.gov).

### **Fiscal Detail/Objects of Expenditure**

	<b>FY 2015</b>	<b>Total</b>
<b>1. Operating Expenditures:</b>		
Fund 001-1 GF-State	\$ 2,232,000	\$ 2,232,000
<b>Total</b>	<b>\$ 2,232,000</b>	<b>\$ 2,232,000</b>
	<b>FY 2015</b>	<b>Total</b>
<b>2. Staffing:</b>		
Total FTEs	-	-
	<b>FY 2015</b>	<b>Total</b>
<b>3. Objects of Expenditure:</b>		
A - Salaries And Wages	\$ -	\$ -
B - Employee Benefits	\$ -	\$ -
C - Personal Service Contracts	\$ -	\$ -
E - Goods And Services	\$ -	\$ -
G - Travel	\$ -	\$ -
J - Capital Outlays	\$ -	\$ -
N - Grants, Benefits & Client Services	\$ 2,232,000	\$ 2,232,000
Other (specify) -	\$ -	\$ -
<b>Total</b>	<b>\$ 2,232,000</b>	<b>\$ 2,232,000</b>

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	<u>FY 2015</u>	<u>Total</u>
<b>4. Revenue:</b>		
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>

## **Narrative Justification and Impact Statement**

### **What specific performance outcomes does the agency expect?**

The CPE program allows public hospitals to certify their inpatient fee-for-service claims and Disproportionate Share Hospital (DSH) expenditures to receive federal financial participation (FFP) funds. In so doing, the state does not have to contribute the local share of these expenditures, saving the state an estimated \$80 million GF-State per year.

### **Performance Measure Detail**

#### **Activity Inventory**

H014 HCA Federal Financing Programs (Non-Forecasted)

### **Is this decision package essential to implement a strategy identified in the agency's strategic plan?**

The mission of the HCA is to provide high quality health care for the state's most vulnerable residents. This request supports the agency's mission by supporting the HCA guiding principle of being a prudent purchaser of health care services.

Also, by assuring hospitals that they will not receive less money through CPE payments than they would get through current standard hospital payment methodologies, this request supports the financial viability of the state's hospital community.

### **Does this decision package provide essential support to one or more of the Governor's Results Washington priorities?**

This request supports the Governor's health care goal to create a sustainable, affordable, and quality health care system.

### **What are the other important connections or impacts related to this proposal?**

This proposal maintains the same level of health care services without the additional inter-governmental transfer (IGT) revenues that were discontinued effective fiscal year 2006.

### **What alternatives were explored by the agency, and why was this alternative chosen?**

None

### **What are the consequences of adopting this package?**

The HCA will have the required funding for CPE hold harmless grants.

### **What is the relationship, if any, to the state capital budget?**

None

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**What changes would be required to existing statutes, rules, or contracts, in to implement the change?**

None

## **Expenditure and Revenue Calculations and Assumptions**

*Revenue Calculations and Assumptions:*

None

*Expenditure Calculations and Assumptions:*

	SFY2015 Carry Forward Level (SFY2014 supplemental)		
	State		Total
	HA (General)	NJ (HH Grants)	
<b>State-Only</b>			-
<i>HH Grants</i>	4,345,000	14,821,000	<b>19,166,000</b>
<i>MH Offset</i>	(6,570,000)		<b>(6,570,000)</b>
<i>Federal Cost Settlements</i>	3,545,000		<b>3,545,000</b>
<b>CPE Total</b>	<b>1,320,000</b>	<b>14,821,000</b>	<b>16,141,000</b>

	ML CPE SFY2015 - August 2014 draft		
	State		Total
	HA (General)	NJ (HH Grants)	
<b>State-Only</b>			-
<i>HH Grants</i>	0	21,398,000	<b>21,398,000</b>
<i>MH Offset</i>	(6,570,000)		<b>(6,570,000)</b>
<i>Federal Cost Settlements</i>	3,545,000		<b>3,545,000</b>
<b>CPE Total</b>	<b>(3,025,000)</b>	<b>21,398,000</b>	<b>18,373,000</b>
<i>Change</i>	<b>(4,345,000)</b>	<b>6,577,000</b>	<b>2,232,000</b>

**Which costs, savings, and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?**

*Distinction between one-time and ongoing costs:*

All costs identified in this package are ongoing.

*Budget impacts in future biennia:*

The CPE program will continue into the foreseeable future. The funding needed for upcoming biennia will be determined based on future expenditure forecasts and cost and payment data received by hospitals.